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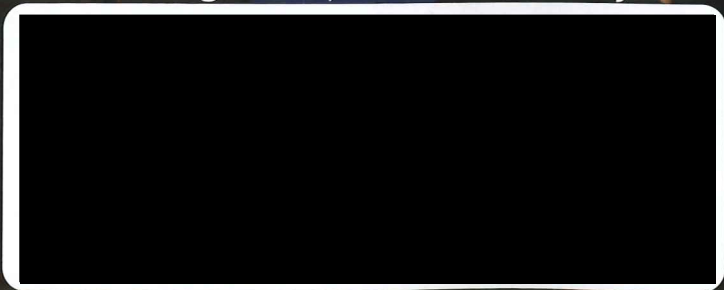


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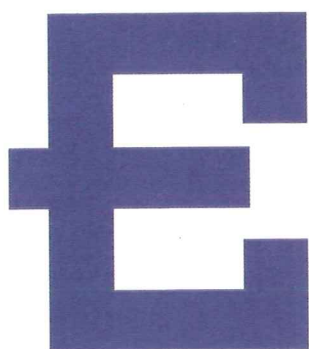
Office workers are an untapped market for retail growth, an ICSC survey finds.



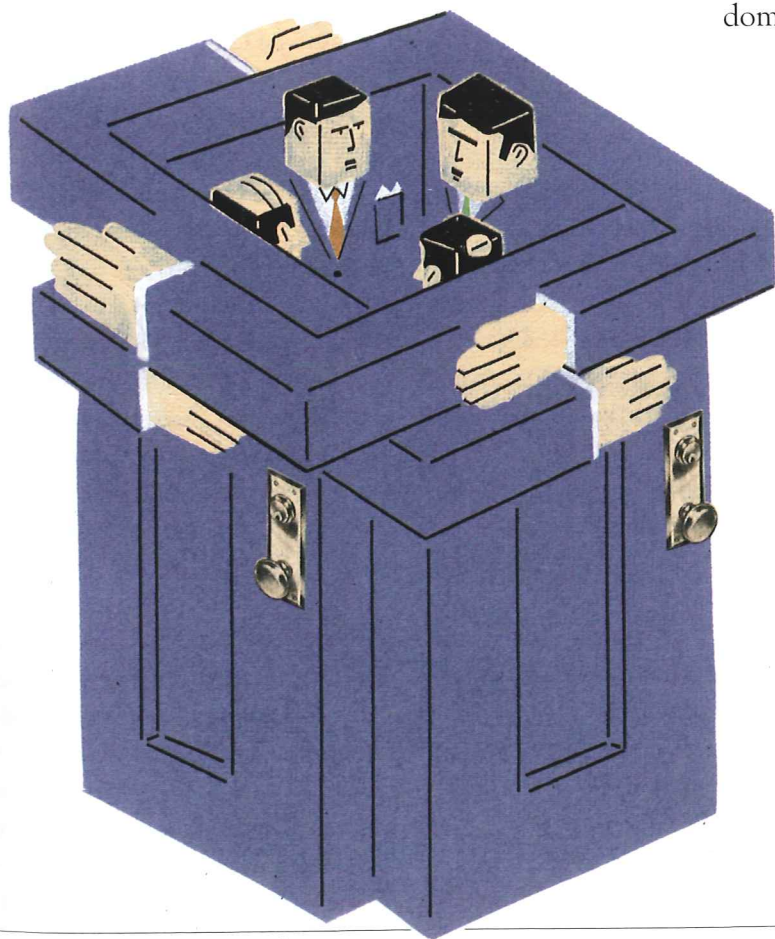
# OFF THE RADAR

SOME PORTFOLIO SALES ARE SEALED WITHOUT SO MUCH AS A 'FOR SALE' SIGN

By Ben Johnson



EQUITY ONE'S ACQUISITION LAST NOVEMBER OF Culver Center, a 216,000-square-foot property in Culver City, Calif., was the largest single-asset off-market retail deal in that state last year. The \$115 million transaction is also an indicator of just how far off-market deals have come. These deals involve properties sold without benefit of a widespread marketing process. In fact, several of the largest have been done in the retail property sector, predominantly by private equity firms and REITs.



In the granddaddy of the recent deals, DDR Corp. and private equity firm The Blackstone Group jointly purchased a \$1.43 billion portfolio of open-air power centers in January. Blackstone also bought 36 Equity One shopping centers last September. Off-market deals seem to suit large-scale firms like Equity One and Blackstone. Equity One develops, acquires, redevelops and manages neighborhood and community shopping centers in metropolitan areas across the U.S. And Blackstone, the world's largest commercial real estate private equity firm has a self-professed "value-add" mentality, and off-market deals are one way to snatch up properties at reduced prices. As an asset type, shopping centers are no more or less likely than other segments to go off-market, according to Spencer Levy, executive managing director at CBRE Capital Markets. "However, certain types of shopping centers might be better candidates for off-market deals than others," Levy said. Stabilized shopping centers, with the

exception of large-block portfolios, are unlikely to trade off-market, he says. But off-market value-add or distressed deals are more likely to do so, since they attract a smaller audience of buyers and may have more-complex capital-markets problems.

"What we've seen are those types of deals where a borrower for the distressed shopping center goes to a small handful of private equity firms, maybe one, and partnering up — both to recapitalize the asset [and] also to negotiate hand in hand with the bank or the other lender to pay off the loan, very often at a discount," said Levy.

Off-market deals are nothing new to larger institutional players such as REITs, private equity firms, insurance companies and pension funds. Generally, these transactions are characterized as having an institution on at least one side of the deal. "Many of the private equity firms will only do deals on an off-market or rifle-shot basis, because they don't like being part of a broader process," said Levy. "It's very often REITs or other entities like them that prefer block trades done quietly rather than a more broadly marketed process, particularly when they're selling portfolios." The story is different for core holdings, however. "I'd say that most core deals are being marketed, because core is in high demand right now, so sellers want to get as much exposure to the market as possible," said John Sarokhan, a director in the Prudential Real Estate Investors capital markets group. "From what I've seen recently, to the extent [that] core deals are offered off-market, it's usually at pricing that appears as aggressive as market pricing, or even higher. The caveat to this is when there is a more complex ownership that would be received better in a direct deal than a marketed one."

One major institutional owner, USAA Real Estate Co., which has some \$12 billion in assets under management, has done a fair share of off-market deals

and remains active within that structure. "We are seeing a few, and we are ready to close on one large off-market transaction," said Pat Duncan, CEO of USAA Real Estate. "It involves a significant partner who wants out."

But off-market deals have slowed markedly, Duncan says. "We are seeing fewer such transactions than a couple of

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years ago during the downturn," Duncan said. "Today's off-market transactions tend to have various tax issues, future exit-strategy issues, lender-approval issues and more. The good news is, once everything is figured out, we feel we have purchased the asset at the lower end of its market value range."

Though institutional-level activity may slow, off-market deals offer opportunities for smaller parties hoping to find properties at reduced prices and to pay little or nothing in brokerage commissions. "In the sub-\$5-million range, I expect that off-market transactions are more prevalent," said David Steinwedell, managing partner of Austin, Texas-based Stoneforge Advisors.

Several midsize off-market retail deals have reached the finish line of late. In February, Sterling Organization formed a partnership with Canadian REIT RioCan to buy the Market at Village Center, a 97,761-square-foot power center in Cinco Ranch, Texas, for \$17 million in an off-market deal.

Several firms have stepped up to help facilitate smaller-dollar deals and

level the playing field between institutions and smaller investors. Among these is Tampa, Fla.-based research firm OffMarket Radar, which currently covers four major markets in Florida, plus New York City, and intends to expand its coverage to the top 10 U.S. metros by year-end. "The biggest difference we saw over the past few years was that smaller players were out there hunting for the off-market deals, typically an area not explored by the smaller groups," said Brian McCarthy, the firm's vice president.

Whether involving large or small investors, off-market deals do have a downside. The preclusion of backup bidders to step up in the event that a primary bidder walks away is one problem. A more obvious problem may be that without the full-scale marketing process, it is harder to assess a property's true value. And there may be options of which an off-market seller may be unaware. "Very often we will get involved in a situation where somebody wants to sell a portfolio and thinks the best execution is to sell the portfolio to one buyer," said Levy. "By airing it in the marketplace, they find out that by breaking it up they can get 10 to 20 percent greater value, but they would not have known that if they hadn't gone to the effort."

Kris Cooper, managing director of Jones Lang LaSalle's capital markets division, is more blunt. "From the seller's perspective, it is generally a disadvantage to sell off-market," Cooper said. "Selling off-market does not allow the seller a broad buyer distribution and loses the advantage of a more 'auction' environment to increase the price."

One trend is in no dispute: Increased property-level distress could lead to more off-market deals. The specter of rising interest rates could affect owners with floating-rate debt. "If there is a capital-markets problem in addition to a real estate problem," Levy said, "that's where you're likely to see off-market transactions."

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